

Tennessee Higher Education Commission

**For the Years Ended
June 30, 1996, and June 30, 1995**

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October 3, 1997

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

Dr. Richard Rhoda, Interim Executive Director
Tennessee Higher Education Commission
Suite 1900, Parkway Towers
404 James Robertson Parkway
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Higher Education Commission for the years ended June 30, 1996, and June 30, 1995.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the Tennessee Higher Education Commission's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Tennessee Higher Education Commission is responsible for establishing and maintaining the internal control structure and for complying with applicable laws and regulations.

Our audit resulted in no audit findings. However, we have reported other less significant matters involving the commission's internal controls to the Tennessee Higher Education Commission's management in a separate letter.

Very truly yours,

W. R. Snodgrass
Comptroller of the Treasury

WRS/th
97/088

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Higher Education Commission
For the Years Ended June 30, 1996, and June 30, 1995

AUDIT SCOPE

We have audited the Tennessee Higher Education Commission for the period July 1, 1994, through June 30, 1996. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of the commission's application of the funding formula for Tennessee's public institutions of higher education, a follow-up of recommendations made in the November 1996 report of the Comptroller's Office of Research, and utilization of the STARS grant module. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDINGS

The audit report contains no findings.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee Higher Education Commission
For the Years Ended June 30, 1996, and June 30, 1995

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Tennessee Higher Education Commission For the Years Ended June 30, 1996, and June 30, 1995

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Higher Education Commission. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee Higher Education Commission was created in 1967 by the General Assembly. The purpose of the coordinating board is to create cooperation and unity among the state institutions of higher education. The commission coordinates two systems of higher education—the University of Tennessee campuses, governed by the University of Tennessee Board of Trustees, and the state universities, community colleges, technical institutes, and technology centers, governed by the Tennessee Board of Regents.

The commission’s mission is to carry out the statutory responsibilities through a board consisting of nine lay members representing Tennessee’s congressional districts and appointed by the Governor, as well as the State Comptroller, State Treasurer, Secretary of State, Executive Director of the Board of Education, and two student members as ex-officio members.

The statutory responsibilities mandate that the commission develop a master plan for Tennessee postsecondary education, public and private; develop formulae and recommend the operating and capital budgets for public higher education; review and approve new academic programs; provide data and information to the public, institutions, legislature, and state government; and license and regulate private vocational postsecondary institutions operating within the state.

The underlying principles of the policies developed by the commission are equity, excellence, accessibility, and accountability.

An organization chart of the commission is on the following page.

AUDIT SCOPE

We have audited the Tennessee Higher Education Commission for the period July 1, 1994, through June 30, 1996. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of the commission's application of the funding formula for Tennessee's public institutions of higher education, a follow-up of recommendations made in the November 1996 report of the Comptroller's Office of Research, and utilization of the STARS grant module. The audit was conducted in accordance with generally accepted government auditing standards.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

APPLICATION OF FUNDING FORMULA FOR TENNESSEE'S PUBLIC INSTITUTIONS OF HIGHER EDUCATION

Our objectives in reviewing the funding formula used by the Tennessee Higher Education Commission to distribute public funds to the state's institutions of higher education focused on

- gaining an understanding of the funding formula, and
- tracing the approved formula through the funding process to determine if it was working as intended.

We interviewed key commission personnel to gain an understanding of the budget process for the allocation of funds to the institutions within the commission's purview; to ascertain the objectives of the formula and how it is defined, revised, and used; and to determine if the formula met the objectives. We also reviewed documentation for application of the approved formula through the funding process. We had no findings related to the application of the funding formula; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

FOLLOW-UP OF RECOMMENDATIONS MADE IN THE NOVEMBER 1996 REPORT OF THE COMPTROLLER'S OFFICE OF RESEARCH

Our objectives in performing a follow-up of recommendations made in the November 1996 report of the Comptroller's Office of Research were to determine

- what actions the commission has taken to account for its operational expenditures and for flow-through money;
- if revenues and expenditures can be identified specifically on the state budget, the state accounting system, and commission records; and
- whether the commission reconciles the budget, the state accounting system data, and commission records.

We interviewed key commission personnel to determine what actions the commission had taken in response to the recommendations in the report and reviewed supporting documentation to determine if a sample of revenue and expenditure transactions were properly identified. We had no findings related to our follow-up; however, one minor weakness came to our attention which has been reported to management in a separate letter.

DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"

Department of Finance and Administration Policy 20 requires that state departments and agencies whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS grant module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- the commission had controls in place to ensure that appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- the commission had controls in place to ensure that appropriate payroll costs were reallocated to federal programs within 30 days of each month's end using an authorized redistribution method;
- the commission made drawdowns at least weekly using the applicable STARS reports;
- the commission negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and

- the commission utilized the appropriate STARS reports as bases for preparing the Schedules of Federal Financial Assistance and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the commission's procedures and controls concerning Policy 20 and reviewed related documentation. We noted no significant deficiencies.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Tennessee Higher Education Commission filed its report with the Department of Audit on December 28, 1995. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the Tennessee Higher Education Commission has corrected the previous audit finding concerning compliance with Department of Finance and Administration Policy 20.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ended June 30, 1996, the commission filed its compliance report and implementation plan on June 30, 1996, and for the year ended June 30, 1995, on June 30, 1995.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor is currently evaluating which office in the Executive Branch will be the new monitoring agency.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report, *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

Tennessee Higher Education Commission divisions and allotment codes:

332.01	Higher Education Commission
332.02	Contract Educational Program

